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TAGS: [ENRG](#) [EPET](#) [ETRD](#) [IR](#) [TU](#)

SUBJECT: TURKISH ENERGY OFFICIALS ON LIBERALIZATION, IRAN,  
AND INVESTMENT ISSUES

REF: ANKARA 4443

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11. (SBU) SUMMARY: Turkey's BOTAS (Petroleum Pipeline Corporation) Director Mehmet Bilgic expressed confidence in Turkey and BOTAS' growing role as an energy transit country for oil and gas, citing that the Baku-Tbilisi-Ceyhan oil pipeline and Shah Deniz gas pipeline (tendering process) were on schedule. He lamented the continued problems with the pipeline from Northern Iraq, complaining about the significant costs incurred by BOTAS to maintain the often unused line. Bilgic expressed frustration that BOTAS' repeated offers to provide help in Iraq, and specifically in maintaining the Northern Iraq pipeline, had not been taken. While the BOTAS Director expressed support for eventual privatization of BOTAS, he strongly criticized requirements under the Natural Gas Law for transferring 80 percent of its purchase contracts to the private sector in four years. He emphasized that BOTAS' contracting parties did not want to reveal terms or have a private entity substituted for BOTAS. Finally, Bilgic expressed respect for U.S. policy on Iran and Turkey's prioritization of transit of gas from the Caspian; however, he noted that long-term Turkey could not stand in the way of demand from Europe and supply from Iran. The Deputy U/S at the Energy Ministry provided pessimistic views on resolving Build-Operate-Transfer electric projects and provided views on Bosphorus Bypass possibilities. END SUMMARY.

BOTAS - Privatize shares not purchase contracts?  
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12. (SBU) In a August 9 meeting with Econoff and EconSpecialist, Turkey's BOTAS (Petroleum Pipeline Corporation) Director General Mehmet Bilgic expressed confidence in the strength of his company, while noting the challenges of developing a robust domestic network to satisfy natural gas "take or pay" contracts (4000 km under construction). (Note: BOTAS is Turkey's state pipeline company, handling both oil and natural gas transit. End Note.) According to Bilgic, Turkey had been successful in revising its gas purchase price with Russia and would continue discussions with Iran and Algeria. He noted that the Baku-Tbilisi-Ceyhan (BTC) oil pipeline was on-track, including the Turkish side. The Director said that Shah Deniz pipeline contract tendering was underway and expected formal ground-breaking later this year for end of 2006 completion. Bilgic lamented the on-going problems and sabotage affecting the oil pipeline from Northern Iraq, and complained about the costs incurred by BOTAS to maintain its portion of the pipeline given infrequent flows. The Director reminded Econoff that BOTAS' repeated offers to provide help in Northern Iraq had not been taken up.

13. (SBU) While expressing support for privatization of BOTAS' ownership, and claiming the current government supported this, the BOTAS Director was extremely critical of the 2001 Natural Gas Law (part of intended broad reform and dismantling of government monopolies) which mandated transfer of 80 percent of BOTAS' import purchase contracts by 2009. He flatly rejected the law and said that BOTAS would not be able to accomplish the mandate. Warming to the topic, Bilgic said the law was a flawed reaction to the State's past mishandling of contracts, and the law's supporters wrongly presumed that this would create enhanced competition. Moreover, he stressed that contracting parties (Russia and others) did not want to reveal contract terms and would not agree to have a private entity substituted for BOTAS (and the implicit state guarantee). (Embassy has heard similar complaints before from BOTAS.)

14. (SBU) Bilgic stated that BOTAS would announce a tender for some of its contracts in ten days, so that the Energy Market Regulatory Authority (EMRA) and others could see that BOTAS was making a good faith effort, but repeated that tendering of contracts was not achievable. EMRA announced the gas purchase contract tendering process in the press on August 12, after threatening to fine BOTAS for being delinquent in achieving contract tendering to date.

According to the press account, TUSIAD (Turkish Industrialists and Businessmen's Association) convinced the PM to support BOTAS' tendering of gas contracts. The BOTAS Director emphasized that Turkey needed to continue to focus on freeing up and diversifying access to Turkey from all directions. He also noted that the National Assembly would be taking up a draft law amendment which would "improve" the contract purchase process (there has been debate on BOTAS' final targeted percentage of contracts). Bilgic claimed the obligations on BOTAS should be less ambitious; rather, there should be guidance for BOTAS to seek to transfer purchase contracts "as it sees fit" and provide for direct negotiations with the seller, instead of by tendering.

Iran natural gas potential - we respect U.S. policy, but...

15. (SBU) Broaching the topic of Iran natural gas, Bilgic stated that while U.S. policy was important and Shah Deniz and Caspian egress was the priority, Iranian gas was attracting great interest from Europe. He cited the number of European companies already doing business in Iran. The BOTAS Director said that if Turkey "had the capacity and market, it could not continue to say no to Iran". He cited the potential Nabucco consortium project for piping gas to Austria, noting that ABN Amro had just announced its advisory role. Bilgic claimed that this and other projects would create demand for gas transiting Turkey which would exceed Shah Deniz supply. Bilgic spoke positively of the Turkey-Greece natural gas agreement signed late last year, noting that Turkey had laid 220 km of pipeline on its side. More on Bosphorus Bypass

16. (SBU) In a separate meeting August 10 with Econoff and EconSpecialist, Energy Ministry Deputy U/S Selahattin Cimen stated that the GOT clearly supported Bosphorus bypass projects (recognizing that BTC is effectively in hand). Similar to comments from other GOT officials in refTel, he emphasized that these projects must be private and must guarantee transfer of certain pipeline volumes to evidence feasibility and allow the GOT to favor those providing for the largest volume of oil. Cimen recognized that there had been lamentable delays, and he asserted that the GOT would facilitate issuance of permits. He suggested that environmental studies and now unnecessary concern about waiting for BTC to reach close to completion had delayed permitting until now. Comment: Cimen seemed to still articulate an excessive role for the GOT in identifying the competitive projects based on the throughput guarantees they would provide. End Comment.

Threats on BOTs?

17. (SBU) Cimen stated that the Turkish energy sector was undergoing significant transition to a freer energy market, but lamented that some projects "contradicted this market model" and were not economic for Turkey. While expressing the importance of assuring a welcoming and transparent environment for foreign investment, he delivered an only slightly veiled threat on the long-standing disputes with Build-Operate-Transfer (BOT) projects (two with American involvement- Enron Trakya and Edison Mission) over contracted electricity pricing and government purchase contracts (or potential government buy-out prices). Pending resolution of these disputes, the GOT has not delivered required licenses. Cimen accused these companies of serious economic and "ethical" misconduct; moreover, he suggested that if these companies did not make a "gesture" and accept lower prices, the GOT would have to take legal action against their "misconduct"! Econoff responded by emphasizing the importance of contract sanctity in assuring an attractive environment for foreign investment. Cimen stated that the GOT would insure that all its actions had a legal foundation.

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